



California Public Utilities Commission

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HOT TOPICS

DIVISION OF RATEPAYER ADVOCATES

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DRA RECOMMENDS RATE DECREASE OF \$67.7 MILLION FOR SOUTHERN CALIFORNIA GAS COMPANY AND REDUCTIONS TO THE RATE INCREASE REQUESTS OF SAN DIEGO GAS & ELECTRIC COMPANY

The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC), today issued its reports in response to applications filed with the CPUC by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) for rate increases beginning in 2008. In its application, SoCalGas requested a \$139.3 million increase over currently authorized revenues. SDG&E's application requested an electric revenue increase of \$197.9 million and a gas revenue increase of \$33.8 million. **Instead, DRA is recommending: (1) a \$67.7 million rate decrease for SoCalGas; (2) a \$4.3 million gas rate decrease for SDG&E; and (3) a \$108.0 million reduction to SDG&E's requested electric rate increase.**

"The rate increases proposed by SoCalGas and SDG&E should be reduced significantly," said DRA Director Dana Appling. In particular, DRA proposes reductions totaling over \$60 million to both utilities' requested funding of various incentive bonus and compensation programs. The DRA Director added, "It is patently unfair for consumers to be asked to pay for excessive executive and management bonus, compensation, and stock option programs."

The primary areas in which DRA proposes major adjustments to the utilities' requests are:

- DRA's forecasts of employee benefits costs (primarily incentive related costs, medical expenses and pension costs) are \$50 million and \$40 million lower than the respective SDG&E and SoCalGas forecasts.
- DRA's forecast of gas operation and maintenance expenses is \$37 million lower than the SoCalGas estimate.
- DRA's forecast of electric distribution operation and maintenance expenses is \$23 million lower than the SDG&E estimate.
- DRA's forecasts of Corporate Center (i.e. parent company) costs allocated to the utilities are \$17 million and \$16 million below the respective SoCalGas and SDG&E forecasts.
- DRA's forecasts of rate base are \$150 million and \$127 million lower than the respective SoCalGas and SDG&E forecasts. The majority of this adjustment is due to DRA's lower forecasts of working capital funds and lower capital expenditure estimates.
- DRA's forecasts for depreciation expense are \$33 million and \$21 million lower than the respective SoCalGas and SDG&E forecasts.
- DRA's forecasts of customer service operations and information expenses are \$16.1 million and \$10.6 million lower than the respective SoCalGas and SDG&E forecasts.

Both utilities have proposed a 6-year term for the requested rates to remain in effect, a formula for annual price increases, and a symmetrical earnings sharing mechanism between ratepayers and shareholders. DRA has countered with a shorter 5-year term with lower annual increases based on using lower escalation and higher productivity factors than proposed by the utilities. DRA also recommends that ratepayers not be liable for future rate increases as proposed by the utilities when its earnings fall below authorized levels.

Comparison of DRA and Utility Proposals
For Test Year 2008
BASE RATE REVENUES

Utility	Utility Proposed Base Revenue Increase (Decrease)	Percent Change In Base Rev.	DRA's Proposed Base Rev. Increase (Decrease)	Percent Change In Base Rev.
SoCalGas	\$139.3 M	8.8%	- \$67.7 M	- 4.3%
SDG&E (E)	\$197.9 M	20.8%	\$90.0 M	9.5%
SDG&E (G)	\$33.8 M	15.1%	- \$4.3 M	-1.9%

Evidentiary hearings will begin on August 6, 2007 at the Commission's headquarters in San Francisco.

DRA is an independent division of the CPUC, created by the Legislature to represent the interests of all residential and business customers of CPUC regulated public utilities with a goal to obtain lowest possible rates consistent with safe and reliable service levels. DRA has a multidisciplinary staff with expertise in economics, finance, accounting and engineering. DRA's views do not necessarily reflect those of the CPUC.

The DRA reports on the SoCalGas and SDG&E General Rate Case Test Year 2008 requests are available on its website at www.dra.ca.gov.

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